

## Message Text

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ACTION NEA-10

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FM AMEMBASSY TEL AVIV  
TO SECSTATE WASHDC 7229

C O N F I D E N T I A L TEL AVIV 3973

E.O.11652: GDS

TAGS: ELAB, ECON, IS, AFSP

SUBJECT: STATUS OF WAGE NEGOTIATIONS

REF: A) TEL AVIV 2505 B) STATE 142571 C) TEL AVIV 7186

1. SUMMARY: WITH HISTADRUT NOT YET COMMITTED TO ACCEPTING KEY PORTION OF EXTENSIVE REVISION IN METHOD OF COMPUTING COST-OF-LIVING ALLOWANCE (COLA) TO BE RECOMMENDED BY TRIPARTITE COMMITTEE OF EXPERTS, IT IS TOO EARLY TO PREDICT PRECISELY OUTCOME OF NEGOTIATIONS ON CRITICAL COLA ADJUSTMENTS AND EXTENSION OF 1974 COLLECTIVE WAGE AGREEMENTS. AGREEMENT MAY NOT BE CONCLUDED UNTIL END OF JULY. DESPITE MOUNTING PRESSURES BY VARIOUS GROUPS FOR HIGHER WAGES, FACTORS, OPERATING IN FAVOR OF WAGE RESTRAINT SHOULD KEEP GENERAL WAGE INCREASE LAGGING SLIGHTLY BEHIND CONSUMER PRICES WITH WAGES LESS A FACTOR IN INFLATION THAN PUBLIC SPENDING.

2. CRITICALLY IMPORTANT WAGE NEGOTIATIONS BETWEEN HISTADRUT AND EMPLOYERS OVER COST-OF-LIVING ALLOWANCE (COLA) AND EXTENSION OF 1974 WAGE AGREEMENTS WILL ENTER FINAL STAGE AS SOON AS PARTIES  
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(HISTADRUT, GOI, AND COORDINATING COMMITTEE OF EMPLOYER ORGANIZATION) REVIEW RECOMMENDATIONS OF TRI-PARTITE COMMITTEE OF TECHNICAL EXPERTS (HEADED BY BANK OF ISRAEL DIRECTOR OF RESEARCH) AND ADOPT

THEIR RESPECTIVE POSITIONS.

3. TRIPARTITE COMMITTEE HAS NOT YET ISSUED FINAL REPORT, BUT PORTIONS HAVE BEEN LEAKED TO PRESS AND WHOLE REPORT HAS BEEN GENERALLY CONFIRMED TO LABOR ATTACHE BY SENIOR HISTADRUT OFFICIAL.

4. COMMITTEE WILL MOST LIKELY RECOMMEND THAT:

--70 PERCENT OF INCREASE IN CONSUMER PRICE INDEX (CPI) BE PAID AS COLA (INSTEAD OF 100 PERCENT AS IN CURRENT SYSTEM).  
--COLA BE PAID AUTOMATICALLY, TWICE A YEAR, EITHER BY LAW OR LONG-TERM COLLECTIVE AGREEMENT (INSTEAD OF BY RELATIVELY SHORT TERM AGREEMENTS NEGOTIATED AT FREQUENCIES DETERMINED BY HISTADRUT).  
--COLA BE BASED ON AVERAGE MONTHLY INCREASE IN CPI DURING THREE MONTHS PRIOR TO DATE COLA IS TO BE PAID OVER AVERAGE OF PREVIOUS THREE MONTHS (INSTEAD) OF ANNUAL AVERAGES WHICH PRODUCED TIME LAG IN RECEIVING COMPENSATION AND WHICH CREATED DISTORTATIONS BY PUTTING IMPACT OF PREVIOUS YEARS INFLATION ON CURRENT YEAR'S COLA PAYMENT, THUS SOMETIMES INCREASING WAGES AT TIME WHEN WAGE RESTRAINT IS MOST NEEDED);  
--CEILING OF IL 3,700 PER MONTH TO REPLACE CURRENT CEILING OF IL 1,000 PER MONTH.  
--COLA PAYMENTS WILL BE TAXABLE, AS PER BEN SHAHAR INCOME TAX REFORM PROPOSALS, (INSTEAD OF ENJOYING TAX EXEMPT STATUS AS IS CASE NOW).

5. MAXIMUM COLA PAYMENT PAYABLE FROM JULY 1 UNDER PROPOSED FORMULA WILL BE AROUND IL 370 OR IL 270 PER MONTH NET OF TAXES, INSTEAD OF NEARLY IL 500 UNDER CURRENT SYSTEM. THIS WILL INJECT INTO ECONOMY ADDITIONAL 1.5 BILLION POUNDS ANNUALLY INSTEAD OF IL 5 TO 5 BILLION UNDER CURRENT SYSTEM.

6. NEW COLA FORMULA REPORTEDLY SATISFACTORY TO GOI  
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AND EMPLOYERS (WHO MAY URGE LESS BUT WILL SETTLE FOR COMMITTEE'S RECOMMENDATIONS). HOWEVER, HISTADRUT MAY HAVE DIFFICULTY ACCEPTING 70 PERCENT PROVISION IN NEW FORMULA. COMMITTEE OF EXPERTS, ACCORDING TO SOURCE, HAD NOTED THAT OVER PAST 15 YEARS, WORKERS ON AVERAGE WERE COMPENSATED FOR 50 PERCENT OF INFLATION DUE TO TIME LAGS IN IMPLEMENTING COLA PAYMENTS, RELATIVELY LOWER CEILING ON COLA PAYMENTS, AND OCCASIONAL EXEMPTION OF CERTAIN PORTION OF INCREASE IN CPI FROM COLA CALCULATION. ADOPTION OF 70 PERCENT FORMULA THUS REPRESENTS REAL IMPROVEMENT. IT ALSO NEUTRALIZES KEY CONFLICT BETWEEN GI AND HISTADRUT WITH FORMER HAVING BEEN DEMANDING FULL COLA

COMPENSATION WHILE GOI URGED THAT IMPACT OF EMERGENCY ECONOMIC PROGRAM, INCLUDING DEVALUATION, NOT BE INCLUDED IN COLA. HISTADRUT SOURCE SAID THAT IT WOULD BE EASIER TO "SELL" NEW COLA SYSTEM IF IN FIRST YEAR, WORKERS RECEIVE 100 PERCENT COMPENSATION RATHER THAN 70 PERCENT. MAPAM FACTION IN HISTADRUT MAY URGE HIGHER RATE OF COMPENSATION, WHILE ALL OPPOSITION POLITICAL PARTIES IN HISTADRUT, INCLUDING LIKUD, WILL ATTACK 70 PER CENT FORMULA. FINANCE MINISTER SCHEDULED TO APPEAR IN NEXT FEW WEEKS BEFORE MULTI-PARTY HISTADRUT EXECUTIVE COMMITTEE TO EXPLAIN NEED FOR WAGE RESTRAINT POLICY.

7. IF ACCEPTABLE COLA AGREEMENT IS CONCLUDED, AND BEN SHAHAR COMMITTEE RECOMMENDATIONS ARE ACCEPTED BY KNESSET, HISTADRUT WILL EXTEND 1974 COLLECTIVE AGREEMENTS COVERING WAGES AND WORKING CONDITIONS THROUGH 1975. HISTADRUT HAS ALSO DEMANDED THAT NO ADDITIONAL INDIRECT TAXES BE IMPOSED THIS YEAR AS CONDITION FOR EXTENDING CONTRACTS. THIS IS NOT SERIOUS ISSUE, AS ADDED VALUE TAX WILL NOT BE ADOPTED UNTIL APRIL 1976 ACCORDING TO HISTADRUT SOURCE.

8. ENTIRE WAGE RESTRAINT POLICY HOWEVER, COULD BE JEOPARDIZED BY MOUNTING DEMANDS IN PUBLIC SECTOR FOR ADDITIONAL SPECIAL ALLOWANCES (SEE REFERENCE C), AND BY POSSIBILITY OF WAGE DISPUTES  
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ARISING OUT OF IMPLEMENTATION OF BEN SHAHAR RECOMMENDATIONS, PARTICULARLY OVER CAR ALLOWANCES, WHICH WILL BE TAXABLE INCOME, AND CERTAIN BENEFITS ENJOYED BY HIGHLY MILITANT AIRLINE AND MARITIME EMPLOYEES, WHICH WILL BE FULLY TAXED.

9. HISTADRUT ALSO INCREASINGLY CONCERNED BY FEAR OF UNEMPLOYMENT, WHICH HOWEVER COULD SERVE AS RESTRAINING FORCE ON WAGE DEMANDS. IN 1974 UNEMPLOYMENT DID NOT MATERIALIZE, IN PART DUE TO FACT LABOR FORCE DID NOT GROW AS RESULT LARGE NUMBER OF ISRAELIS WHO EMIGRATED, RAPID EXPANSION OF REGULAR ARMY, AND EDUCATIONAL BENEFITS TO VETERANS OF OCTOBER 1973 WAR. THESE FACTORS MAY BE LESS OPERATIVE IN 1975/76, WHILE FURTHER CUTS IN GOI BUDGET MAY MEAN LESS JOBS. ( HISTADRUT, INCIDENTALLY HAS GONE ON RECORD OPPOSING PLACEMENT OF DEFENSE ORDERS IN US WHICH COULD BE MANUFACTURED IN ISRAEL.)

10. DESPITE STRONG LOCAL LEVEL AND OPPOSITION POLICAL PARTY PRESSURES FOR INCREASED WAGES, WE BELIEVE EFFORTS OF GOI AND SENIOR HISTADRUT LEADERS

WILL SUCCEED IN KEEPING WAGE SITUATION UNDER  
CONTROL. THERE MAY BE SOME SERIOUS LABOR UNREST OVER NEXT  
SIX MONTHS IN AGITATION FOR HIGHER WAGES, BUT WAGE  
INCREASES WILL LIKELY LAG BEHIND INFLATION, WHILE  
UNEMPLOYMENT MAY INCREASE SLIGHTLY ABOVE CURRENT  
THREE PER CENT LEVEL. SUCCESS OF GOI AND  
HISTADRUT LEADERS IN MAINTAINING REASONABLE SOCIAL  
AND INDUSTRIAL RELATIONS STABILITY MAY DEPEND  
IN PART ON THEIR ABILITY TO CONVINCE RANK AND FILE OF  
SERIOUSNESS OF ISRAEL'S ECONOMIC SITUATION--  
WHICH HAS NOT YET BEEN ENTIRELY ACHIEVED--AND SECURITY  
SITUATION. AT THIS JUNCTURE, WE BELIEVE WAGES WILL  
BE LESS OF A SIGNIFICANT INFLATIONARY FORCE THAN  
PUBLIC SPENDING ON DEFENSE AND MEASURES INTENDED  
TO AVERT UNEMPLOYMENT IF IT INDEED DEVELOPS INTO  
SERIOUS PROBLEM.  
VELIOTES

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